Public Organisations and New Approaches to Building Markets in Asia
Centre on Asia and Globalisation
Lee Kuan Yew School of Public Policy
National University of Singapore

Workshop, Singapore, April 17-18, 2011 / New Seminar Series

**Institutions and the Market for Corporate Control in Asia:
An Empirical Analysis**

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Abstract

The opening of domestic financial markets to competition, and especially the removal of entry barriers to foreign investors, is generally understood to bring about significant benefits in terms of greater stability and economic growth. Yet, the liberalisation of financial markets may be hampered by interest groups which oppose competition and by unsound public policies which do not provide adequate risk protection against unwelcome market outcomes. This paper tackles the issue of whether country-level institutions play any role in the volume of financial activity. More precisely, the paper is focused on explaining the intensity of financial flows in the market for corporate control (MCC), especially in the form of mergers and acquisitions (M&A), in Asian countries. The analysis, which is conducted on M&A activity recorded in the period between 1995 and 2010 in Asian countries, supports the role played by institutions on the dynamics of the MCC.

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Institutions and the Market for Corporate Control in Asia:
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1. Introduction.

The last couple of decades witnessed a dramatic surge in the volume of transactions in the financial sector, in both domestic and international markets. The growth of financial flows has been related, among others, to the development of innovative financial services, to the technological progress, and to the adoption of liberalization and de-regulation policies worldwide (Hur et al., 2007). The effects of this surge of the financial sector have been largely debated, with contrasting views as to whether it sustains economic development or exacerbates differentials in economic growth. Within the overall increase of the financial sector, in fact, striking differences persist between financial flows in developed (industrialized) countries and developing ones.

These patterns pose a number of theoretical and normative issues. Does the increase of financial activity and the integration of financial markets worldwide contribute to the convergence (or 'catching up') between developed and developing economies? If it is the case, should developing countries stimulate the increase of financial activity by opening their domestic financial markets to global flows? And what policy reforms should be pursued in order to stimulate the volume of transactions in the financial sector, both conducted between domestic actors and with international investors? These issues have been addressed, in part, by a considerable amount of scholarly works which have highlighted the importance of institutions and institutional quality in the development of financial markets. One general argument is that the institutional endowment of a country, both in terms of its generic legal system and of sector-specific regulations, affects the intensity of financial flows.

This paper aims to contribute to this line of inquiry by focusing on the role played by countries' institutions on the activity within a specific segment of the financial market, namely the market for corporate control (MCC). The MCC is the part of the equity market related to the transactions of controlling stakes of business companies, which are typically related to mergers and acquisitions (M&As) operations. Most M&As generally take place as domestic transactions, but the integration of financial markets worldwide also facilitates cross-border deals, which have significantly increased recently (Ferreira et al., 2009). As such, the development of the MCC (as a component part of the financial sector) is important as it relates to the efficient re-allocation of company assets, to market discipline imposed on under-

performing management teams, to the internationalization of domestic companies, and to the attraction of 'brownfield' foreign direct investments (FDI).

The question of what affects the intensity of M&A operations has been widely researched. Relatively little attention has been placed, however, on whether and how institutions play any role in the intensity of these business deals. Provided that M&A transactions take place within a context of information asymmetry (concerning the 'quality' of the company which is acquired) and uncertainty (concerning protection of property rights and return to investments), features of a country's institutions can be important in affecting M&A decisions because they contribute forming expectation about the risk of shareholder value's expropriation. This risk would be especially sensible for acquirers based in foreign countries, hence institutions may be more relevant for cross-border M&A than domestic ones.

This question is investigated here through the analysis of M&A activity conducted in main East, South, and South-East Asian countries in the period 1983-2010. Alongside with the global trend, the volume of M&A activity in Asia grew remarkably during the last couple of decades (Fisher, 1997, 2001; Mody and Negishi, 2000), especially in relation to the many restructuring operations conducted in the aftermath of the 1997 financial crises (Vuong et al., 2009; Breinlich, 2006; Zhan and Ozawa, 2001). This pattern affected both developed economies (e.g., Singapore, Taiwan, Japan, South Korea) as well as less developed (in terms of 2010 per capita GDP) ones (e.g., Malaysia, Thailand, China, Indonesia, Philippines, India). Understanding whether features of the institutional system affect M&A financial flows is important as these countries face policy issues related to whether and how to reform their respective financial market institutions.

2. Literature review.

The opening of domestic financial markets to competition, and especially the removal of entry barriers to foreign investors, is generally understood to bring about significant benefits in terms of greater stability and economic growth (Domínguez, 1998; Simmons and Elkins, 2004; Bekaert et al., 2003). The benefits commonly associated to increased financial market liberalization include efficient allocation of capital, funding of more investment projects (Quinn and Inclan, 2007), diversification of risk, support to international trade, alignment of world prices (Quinn, 1997), channelling savings to productive uses (Obstfeld, 1998), transferring capital and know-how from developed to less developed countries (Hattari and Rajan, 2007).

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Yet, the liberalisation of financial markets may be hampered by interest groups which oppose competition (Rajan and Zingales 2003) and by unsound public policies which do not provide adequate risk protection against unwelcome market outcomes (Landy et al. 2007). Objections to full liberalization of financial markets include the exposure to the risk of short term crisis as a price to pay for long term benefits (Aizenman, 2002; Eatwell and Taylor, 1998; Kaminsky and Schmukler 2002) and some evidence that financial flows restrictions may have favoured industrial development, at least in certain stages of countries' history (Quinn, 1997). Policy recommendations include, therefore, that in certain circumstances limits on capital flows may be appropriate (Stiglitz, 1999) and capital controls may help managing, at least temporarily, swings of investors' mood (Krugman, 1998).

Within financial markets, the segment of the market for corporate control (MCC) is an important component part of the equity market related to the transactions of controlling stakes of business companies. Operations of mergers and acquisitions (M&A) are generally regarded to bring about various benefits, which include market growth, acquisition of distinctive competences and capabilities, diversification of products and services, financial restructuring, cost reductions related to economies of scale, synergies between previously unmatched skills and resources, access to new technologies, and removal of 'double marginalization'. M&A operations which take place between countries are also related to funding foreign direct investments (FDI), which are important factors of target country's economic growth.

The intensity of M&A activity has been related to both 'demand' and 'supply' factors. On the one hand, M&As are triggered by both strategic motives (generally intended to tame competition) and efficiency concerns (especially oriented to reduce costs) (Brakman et al., 2006). Factors which have been associated with enhanced M&A activity include, for instance, technological innovation, market growth opportunities, deregulation of markets in previously restricted-access sectors, restructuring of mature or declining industries, and advantageous valuation of own shares for share-swap acquisitions. On the other hand, M&A are also stimulated by the presence of favourable conditions, especially features of the institutional and political context (Rajan and Zingales, 2002). Research has shown, for example, that M&A activity is related to the specific 'variety of capitalism' of country institutions (Jackson and Miyajima, 2007; Hall and Soskice, 2001), legal systems (LaPorta et al., 1997, 1998), and accounting standards regulations (Rossi and Volpin, 2004).

International M&A deals have been associated to relative market size and distance

between the acquirer and the target countries (Hattari and Rajan, 2007; Bertrand and Zitouna, 2006), culture distance (Shimizua et al., 2004), GDP of target country, tax rates, tariffs rates (Evenett, 2003), financial development of the target country (diGiovanni, 2005), and presence of institutional ownership (Ferreira et al., 2009). In addition, also cross-border M&As appear related to features of target country's institutional context. If institutions provide adequate protection of property rights, then foreign investors may take into consideration M&A as an advantageous mode of entry (i.e., with lower transaction costs) with respect to alternatives such as 'greenfield' investments and strategic alliances.

3. Research method

Last decades witnessed a significant growth of M&A activity worldwide. The Thomson ONE Banker database reports that, within Asian countries (which are meant here as those located in the Asian continent apart from those of the Arab world and Russia), 38,210 operations of M&A have been carried out in the period 1983-2010 (amounting to about US$ 3,398 billion total). Figure 1 exhibits the yearly amount of M&A operations and total value of the transactions. Most of M&A deals were conducted within the same country (28,502 amounting to about US$ 2,493 billion, 73% of total) rather than internationally. Japan hosted most of transactions, both in terms of number of deals (10,561, about 27.6% of total) and value (US$ 1,343 billion, about 39.5% of total), followed by China, Hong Kong, and South Korea (figures 2 and 3). Most of M&A transactions concentrated in the financial, industrial, and high-tech industries (figure 4), while the financial industry alone attracted most of the operations' value (figure 5).

< insert Figures 1-5 about here >

This study aims to test hypothesis concerning the relationship between features of countries' institutions and the intensity of M&A activity. M&A activity is measured through the total number and value of transactions registered in ten Asian countries (China, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand) in the period 1983-2010. The selection of data is based on the total deals available from the Thomson ONE Banker database. Separate analysis is made for explaining the total number and value of M&A transactions which are conducted domestically and which are conducted internationally (cross-border). As an indicator of the data content, Table 1 shows the total

number and value of M&A transactions (domestic, cross-border, and total) registered in the countries in the period 1995-2010 (in the period 1983-1994, figures related to the volume of M&A activity are relatively smaller than in 1995-2010).

< insert Table 1 about here >

Features of the institutions that are hypothesized for explaining the intensity of M&A activity are measured through various indicators forming a longitudinal dataset (balanced panel). The intensity of M&A activity is measures through four proxies, indicating the (log of) total number and total value of M&A operations conducted both within the country (domestic M&A) and between foreign investors and firms based in the country (cross-border M&A). The explanatory variables employed in this study originate from two different datasets. First we will consider six indices of institutional governance of nations – namely, voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption – defined and reported in Kaufmann et al. (2009) in the years 1998-2008. Second, we will use indicators of political institutions as reported by Keefer (2000) and Beck et al. (2001). The selected indicators used as regressors are the type of political system, the numbers of years of the executive in office, the presence of a military as chief executive or defence minister, the political orientation of the government, electoral competitiveness, allegations of frauds in elections, share of seats of the parliament held by the government coalition, fragmentation of the government coalition and of the opposition, and checks and balances in the political system. As control variables, we include GDP, stock market capitalization on GDP, and volume of traded stocks on GDP (i.e., some financial indicators among those reported by Beck et al., 2009). All data are grouped in four 4-year periods (as in Hur et al., 2007) and their respective averages are used to feed the analysis. Dummy variables are inserted to control for country and year factors (full list and description of variables is included in the appendix)

One main reason for running separate model estimates is to make full use of panel data available. Indices of institutional governance of nations are collected from 1995 onwards, hence this dataset can be used for estimating the models on the basis of data covering the period 1995-2010 (i.e., five 4-year periods of M&A activity). Indicators of political institutions are available since the 1970s, instead, hence this dataset ca be used for estimating the models on the basis of data covering the period 1983-2010 (i.e., seven 4-year periods of

M&A activity, starting from 1983 when Thomson ONE Banker data are made available).

The analysis of data has been conducted with R by following the panel linear regression model illustrated in Croissant and Millo (2008, 2007). The analysis is conducted by estimating fixed effect models in order to account for country-specific attributes. The model does not contain any hypothesised effect of past (lagged) variables on present ones. Provided that no information is available about the length of the decision-making and negotiation process for M&As, the 4-year period has been considered long enough as to suffice to explain the intensity of M&A activity without taking into account also past (lagged) conditions and effects. Following Ricci (2006), we first estimate the models which include all variables from each dataset in turn and then proceed with backward elimination of the least significant variable until regressors left in the model are significant (full details on the steps of the analysis can be provided separately as well as R code and AIC indices).

4. Analysis

The analysis has been conducted by estimating different models for explaining the intensity of M&A activity (as expressed by either the total number or the total value of M&A operations) in both domestic and cross-border deals, on the basis of institutional and political indicators resulted from Kaufmann et al. (2009) (indices of institutional governance of nations) and Keefer (2009) and Beck et al. (2001) (indices of political institutions). In short, the models are summarised in table 2.

< insert table 2 about here >

4.1. The role of institutional governance

First, let us consider the role played by institutional governance of nations (as measured by the indices presented in Kaufmann et al., 2009) on the intensity of M&A activity. Four models are estimated in the form:

$$\log(Y_{it}) = \alpha + \beta_1 \text{voiceAcc}_{it} + \beta_2 \text{polStabCrime}_{it} + \beta_3 \text{govEffect}_{it} + \beta_4 \text{regQuality}_{it} +$$
$$\beta_5 \text{ruleOfLaw}_{it} + \beta_6 \text{corruptControl}_{it} + \beta_7 \text{capitOnGDP}_{it} + \beta_8 \text{tradeOnGDP}_{it} + \beta_9 \text{GDP}_{it} + u_{it} \quad (1)$$

where Y_{it} is the total number of domestic M&A deals, the total value of domestic M&A deals, the total number of cross-border M&A deals, and the total number of cross-

border M&A deals in country i at the period t. As the first estimation of the model presents some regressors which are not statistically significant, the model is updated by removing the least significant regressor and a new estimation of the (updated) model is made. For the sake of brevity, the following tables present only the final models estimates resulting at the end of the backward elimination procedure.

4.1.1. Estimating the impact on domestic M&A activity

The results of the estimate of the model (1) with respect to the intensity of domestic M&A activity are shown in tables 3 and 4.

< insert Tables 3 and 4 about here >

4.1.2. Estimating the impact on cross-border M&A activity

The results of the estimate of the model (1) with respect to the intensity of cross-border M&A activity are shown in tables 5 and 6.

< insert Tables 5 and 6 about here >

4.2. The role of political institutions

Let us consider now the role played by political institutions (as measured by the indicators presented in Keefer, 2009) on the intensity of M&A activity. Four models are estimated in the form:

$$\log(Y_{it}) = \alpha + \beta_1 \text{ system}_{it} + \beta_2 \text{ yrsoffc}_{it} + \beta_3 \text{ military}_{it} + \beta_4 \text{ defmin}_{it} + \beta_5 \text{ execrlc}_{it} + \beta_6 \text{ liec}_{it} + \beta_7 \text{ eiec}_{it} + \beta_8 \text{ fraud}_{it} + \beta_9 \text{ majority}_{it} + \beta_{10} \text{ herfgov}_{it} + \beta_{11} \text{ herfopp}_{it} + \beta_{12} \text{ checks}_{it} + \beta_{13} \text{ checks\_lax}_{it} + \beta_{14} \text{ capitOnGDP}_{it} + \beta_{15} \text{ tradeOnGDP}_{it} + \beta_{16} \text{ GDP}_{it} + u_{it} \quad (2)$$

where Y_{it} is the total number of domestic M&A deals, the total value of domestic M&A deals, the total number of cross-border M&A deals, and the total number of cross-border M&A deals in country i at the period t. As before, the first estimation of the model presents some regressors which are not statistically significant, the model is updated by removing the least significant regressor and a new estimation of the (updated) model is made. Again, for the sake of brevity the following tables present only the final models estimates

resulting at the end of the backward elimination procedure.

4.2.1. Estimating the impact on domestic M&A activity

The results of the estimate of the model (2) with respect to the intensity of domestic M&A activity are shown in tables 7 and 8.

< insert Tables 7 and 8 about here >

4.2.2. Estimating the impact on cross-border M&A activity

The results of the estimate of the model (2) with respect to the intensity of cross-border M&A activity are shown in tables 9 and 10.

< insert Tables 9 and 10 about here >

5. Discussion.

The results of the analysis suggest that, overall, there are some reasons to believe that institutions matters on the intensity of M&A activity. The results, however, call for a careful consideration and pondering in order to adequately interpret how indicators of institutional governance and political institutions matter on the intensity of M&A activity, both domestic and cross-border. For ease of reference, the results of the analysis, in the form of significant regressors of the final models, are summarised in table 11.

< insert Table 11 about here >

The results show that domestic M&As seem positively related to regulatory quality and negatively related to indicators of rule of law. The intensity of domestic M&A activity appears also related to the presence of military executive (negative effect), the share of the parliament seats controlled by the government coalition (negative), and the concentration of the opposition coalition (positively). Both the development of the financial sector (as roughly expressed by the ration of stock market capitalisation on GDP) and of the domestic economy (as expressed by the GDP), however, significantly contribute explaining the observed variance of M&A activity in both total number and total value of deals.

These results suggest different possible interpretations. One argument is that most of

the attributes commonly associated to the quality of institutional governance (as expressed by the indicators presented in in Kaufmann et al., 2009) are not significantly related to the intensity of M&A activity, which is rather significantly explained, in part, but the level of financial and economic development. Another argument, however, is that political institutions which make the government more 'contestable' seems related to higher M&A activity, insofar as the presence of a military chief executive and of a large share of parliament seats controlled by the government are negatively related to both the number and value of M&A deals, while a more concentrated (hence, we may infer, more politically robust) opposition are positively related to the intensity of M&A activity. This argument may be supported by the evidence of the the negative effect of the 'rule of law' indicator of institutional governance, insofar as "perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" may relate to less 'contestable' government positions. Another argument is that the number of domestic M&A deals is also explained, in part, by regulatory quality, defined as "capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development".

The results also show that the intensity of cross-border M&As seem related to the presence of military executive (negative effect), the share of the parliament seats controlled by the government coalition (negative), the concentration of the government coalition (negative), and the concentration of the opposition coalition (positively). As for the intensity of domestic M&A activity, both the development of the financial sector (as roughly expressed by the ration of stock market capitalisation on GDP) and of the domestic economy (as expressed by the GDP) significantly contribute explaining the observed variance of cross-border M&A activity in both total number and total value of deals.

Also these results call for different possible interpretations. The intensity of cross-border M&A activity does not seem to be related to the attributes commonly associated to the quality of institutional governance (as expressed by the indicators presented in in Kaufmann et al., 2009). The level of financial and economic development, instead, stands as a more significant factor for explaining both the total number and total value of M&A deals. Turning to political institutions, however, we find that those which make the government more 'contestable' seem related to higher M&A activity. As in the models estimated for explaining the intensity of domestic M&A activity, we also find that the presence of a military chief

executive and of a large share of parliament seats controlled by the government are negatively related to the intensity of cross-border M&A activity, while a concentrated opposition is positively related to it. We also find more supportive evidence for the role played by more 'contestable' government position insofar as the total number of cross-border M&A deals appears negatively related to the Herfindahl index of the government coalition (i.e., intensity of cross-border M&A activity seems higher, the more the government coalition is fragmented – and possibly, therefore, more challengeable by the opposition).

On the whole, these results suggest that features of the institutional and political context associated to 'contestable' government positions seems positively related to a more intense M&A activity. A tentative explanation for this argument may be that, where government positions seem relatively immune from attacks (e.g., because of the presence of military chief executive, or the support of a large share of parliament seats, or the cohesion of the government coalition, or the fragmentation of the opposition), then investors may perceive higher risk of value expropriation from their investments through hostile government policies. Another possible explanation may be that, where the government position is not much 'contestable', then the government tends to be more deeply involved in political economy decisions, with the effect of reducing the intensity of M&A activity because of blocking unwanted M&A deals or slowing down the decision making process. We may add, then, that also the development of political institutions towards more balanced forms of political participation and representation may bring some benefits to the domestic MCC of these countries.

In part, there is also some (albeit based on limited evidence) scope to suggest that regulatory policies intended to facilitate and sustain private sector developments are important to stimulating the activity in the MCC in the Asian countries examined here. As M&A transactions are commonly related to efforts to reallocate company assets to more efficient use, then the increase of activity in the MCC can be viewed positively by those governments that aim to promote economic development. Accordingly, these governments should pay attention to the design and effective implementation of measures for private sector development, as these contribute inducing investors and managers to undertake restructuring operations.

These results also suggest that any presumed emphasis on institutional quality related to voice and accountability, political stability, government effectiveness, confidence in laws, and corruption control, should be carefully assessed. The most counter-intuitive result, in this

respect, probably is the negative (or absent) statistically significant correlation between the intensity of M&A activity and the "perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann et al., 2009: 6). Within the frame of reference of transaction cost economics, features of the institutional context such as contact enforcement and property rights affect economic choices in a positive way. The lack of supporting evidence for this hypothesised relationship, however, may be explained by the need to identify more precisely which exact features of the institutional context come into play in M&A decisions. In other words, generic indicators of institutional quality (such as those provided in Kaufmann et al., 2009) may not suffice to account for the specific M&A choice.

6. Conclusions.

Over the last couple of decades, the volume of transactions in the financial sector has increased dramatically, in both domestic and international markets. The activity conducted in the MCC – in the form of M&A transactions – has intensified, especially in the most developed countries in Asia as elsewhere. This paper has empirically examined whether institutional quality of countries related to the intensity of M&A activities, both domestic and cross-border ones.

The results show that the quality of institutions does matter, in both domestic and cross-border M&A transactions. The total number and value of M&A deals, in particular, appears significantly related to political institutions that make government positions more 'contestable', in the form of not having a military chief executive, holding less share of the parliament seats, being more fragmented, and facing a more concentrated opposition. This result may be related to the negative impact of domestic perceptions of the rule of laws on the intensity of domestic M&A activity, which is rather positively affected by perceptions of better regulatory quality. The number of M&A deals and the volume of financial flows employed in M&A operations, anyway, are significantly related to the level of financial and economic development of the country (as measured by capitalisation on GDP and GDP).

These results partially confirm and extend generalised arguments that are presented in the scholarly literature on the determinants of M&A activity. Setting aside the significance of the general economic development (Evenett, 2003; diGiovanni, 2005), the importance of regulatory quality has been already highlighted in previous works (Hur et al., 2007). Other

works (Rossi and Volpin, 2004) highlighted the importance of features of the institutional context, in the form of accounting standards regulations, that are associated with higher cross-border M&A activity. Although this study did not find any significant relation between confidence in laws and intensity of M&A activity, this lack of evidence may be related to the generic traits of the chosen indicator of institutional quality (as opposed to institutions that can specifically affect M&A choices). With respect to extant research, this study also presents evidence that suggests that political institutions that are conducive to more 'contestable' government positions may contribute creating a favourable climate for a more intense domestic MCC, although in ways which still need to be fully specify.

This study suggests venues for future research. The most interesting one appears to further pursue the line of inquiry into the features of the political institutional context that foster the intensity of M&A activity. Provided that a more intense MCC is instrumental for improving efficient allocation of company assets and pursuing strategic options for company development, governments need to better understand what kind of institutions can better stimulate M&A choices made by investors and managers. Further research is needed, in particular, about how and why the 'contestability' of government positions may be related to a favourable climate for M&A activity, both domestic and cross-border, and about exactly what features of regulatory quality perception are important to stimulate domestic M&A activity.

Appendix

Definition of the variables

voiceAcc: 'voice and accountability', defined as "capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media" (Kaufmann et al., 2009: 73).

polStabCrime: 'political stability and absence of violence', defined as "capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism" (Kaufmann et al., 2009: 74).

govEffect: 'government effectiveness', defined as "capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies" (Kaufmann et al., 2009: 75).

regQuality: 'regulatory quality', defined as "capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development" (Kaufmann et al., 2009: 76).

ruleOfLaw: 'rule of law', defined as "capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann et al., 2009: 77).

corruptControl: 'control of corruption', defined as "capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests" (Kaufmann et al., 2009: 78).

system: type of political system, coded as parliamentary, assembly-elected president, or presidential.

yrsoffic: number of years that the chief executive has been in office.

military: presence of a military as chief executive, coded as yes, or no.

defmin: presence of a military as minister of defence, coded as yes, or no.

execrlc: political orientation of the government, coded as right, left, center, or unidentified.

fraud: indicator of whether there have been allegations of fraud in elections, coded as yer, or no.

majority: fraction of seats of the parliament held by the government party or coalition.

herfgov: Herfindahl Index Government. The sum of the squared seat shares of all parties in

the government.

herfopp: Herfindahl Index Opposition. The sum of the squared seat shares of all parties in the opposition.

liec & eiec: legislative and executive indices of electoral competitiveness, in a scale from 1 (there is no legislature) to 7 (the largest party gets less than 75% seats of the parliament).

checks & checks_lax: indicators of the amount of checks and balances in the political system (increasing the more there are), in a scale starting from 1 (if legislatures are not competitively elected) and increasing according to the type and number of checks (maximum score 17 reached, in the dataset, by India in 2007-2010).

capitOnGDP: value of listed shares to GDP (Standard and Poor's Emerging Market Database and Emerging Stock Markets Factbook; Beck et al., 2009)

tradeOnGDP: total shares traded on the stock market exchange to GDP (Standard and Poor's Emerging Market Database and Emerging Stock Markets Factbook; Beck et al., 2009)

GDP: data on GDP in US dollars is from the electronic version of the World Development Indicators (data.worldbank.org/indicator)

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Figures and Tables
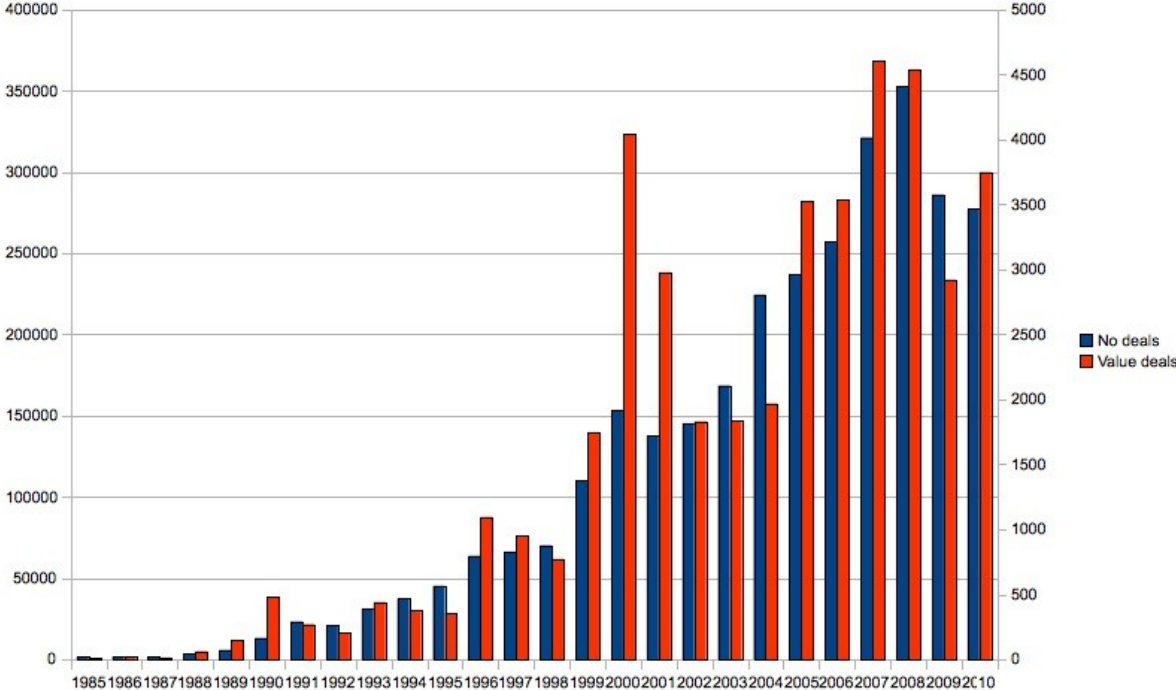
Figure 1. Total number and value of M&A deals in Asian countries, 1985-2010 (source: Thomson ONE Banker).

Figure 2. Number of total, domestic, and cross-border M&A deals in Asian countries, 1985-2010 (source: Thomson ONE Banker).

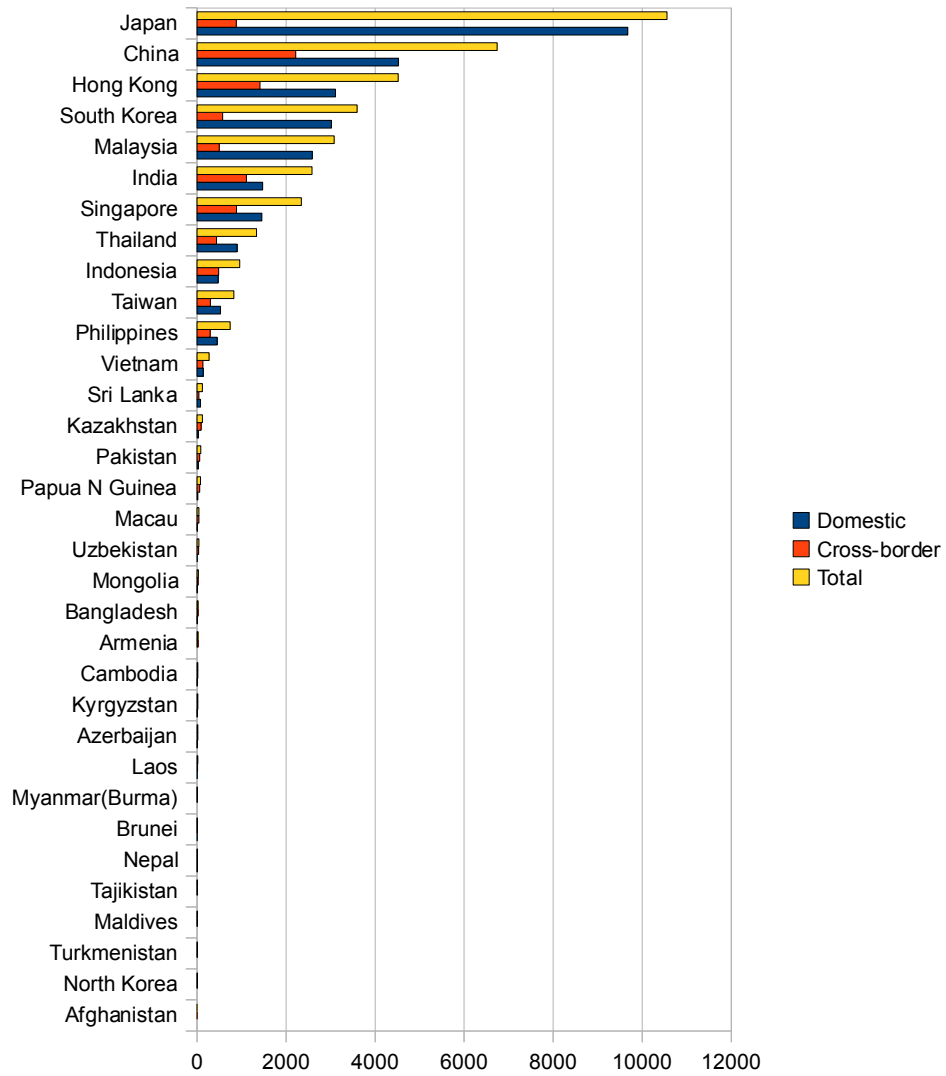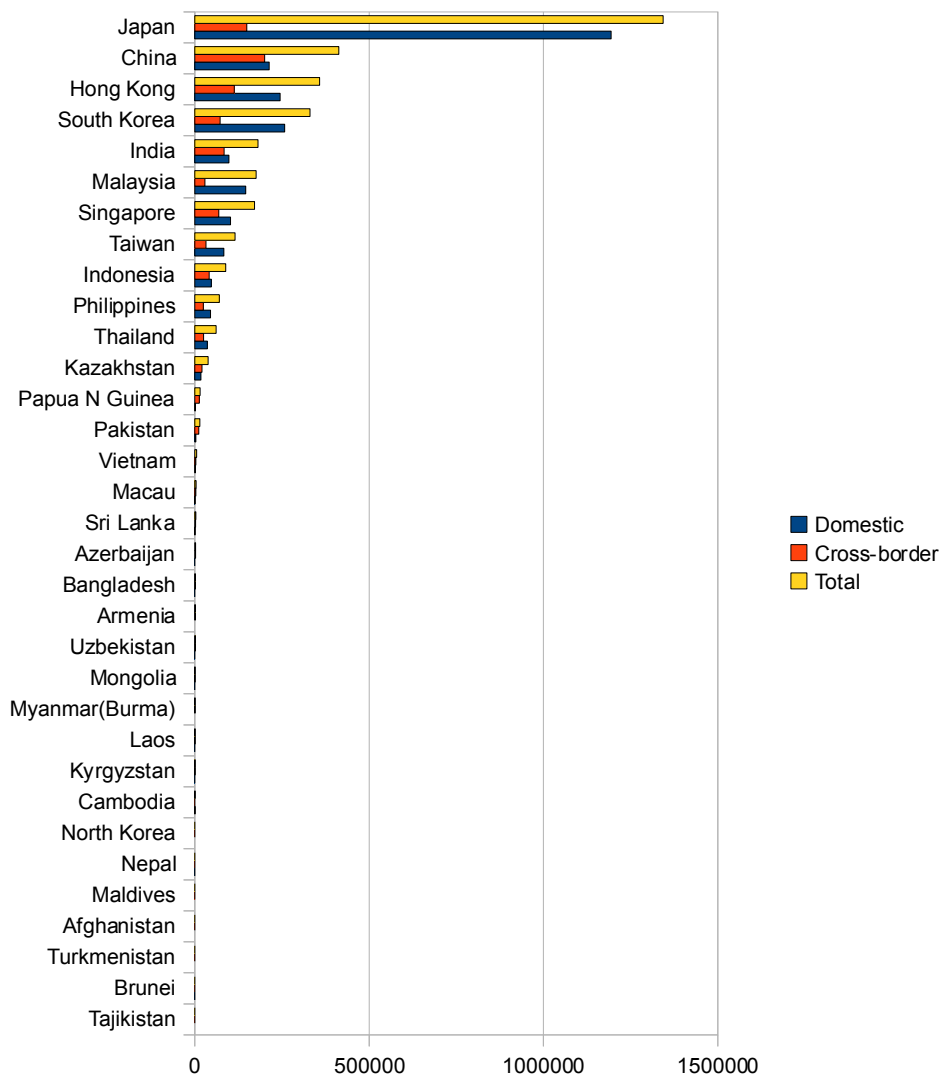Figure 3. Value of total, domestic, and cross-border M&A deals in Asian countries, 1985-2010 (source: Thomson ONE Banker).
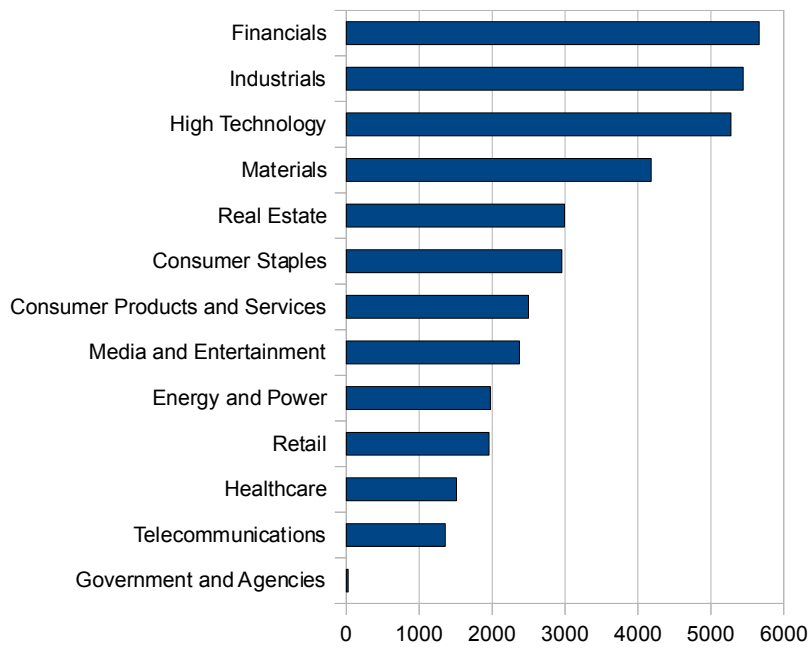
Figure 4. Total number of M&A deals in Asian countries, per industry, 1985-2010 (source: Thomson ONE Banker).
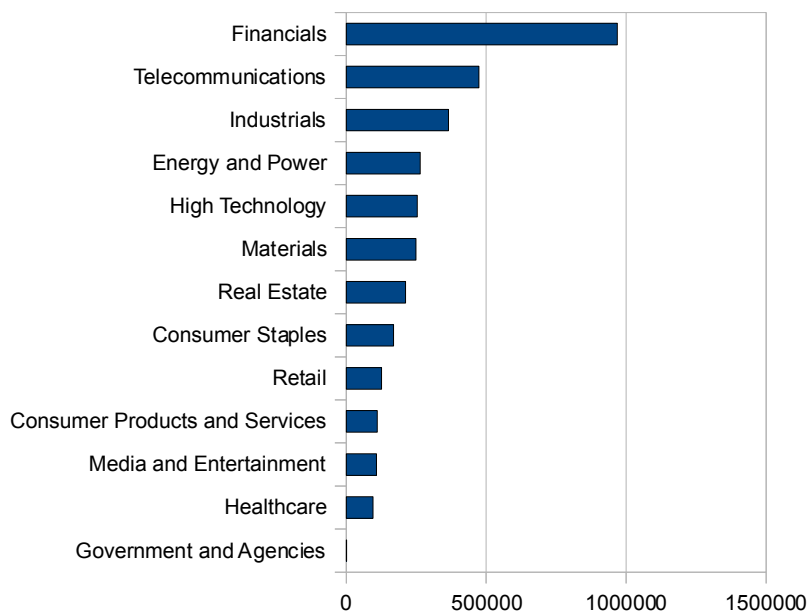

Figure 5. Total value of M&A deals in Asian countries, per industry, 1985-2010 (source: Thomson ONE Banker).

Countries	Domestic		Cross-border		Total	
	Total number	Total value	Total number	Total value	Total number	Total value
China	4,495	211,709.59	2,158	198,182.72	6,653	409,892.31
India	1,385	95,933.44	1,086	83,504	2,471	179,437.44
Indonesia	450	43,909.39	455	37,535.57	905	81,444.95
Japan	9,561	1,129,176.15	811	145,062.22	10,372	1,274,238.37
Malaysia	2,348	129,634.29	431	26,888.95	2,779	156,523.24
Philippines	422	43,527.1	260	23,327.63	682	66,854.73
Singapore	1,300	93,965.78	780	65,328.21	2,080	159,293.99
South Korea	1,218	17,4919.4	409	61,893.27	1,627	236,812.68
Taiwan	507	81,263.45	274	31,429.76	781	112,693.21
Thailand	858	34,318.34	410	24,597.26	1,268	58,915.6
Total	22,544	2,038,356.94	7,074	697,749.6	29,618	2,736,106.54

Table 1. Total number and value (in US$ million) of M&A transactions (domestic, cross-border, and total) registered in the ten countries, 1995-2010 (source: Thomson ONE Banker).

	Independent variable (source: Thomson ONE Banker)			
	Domestic M&A operations		Cross-border M&A operations	
	Total no. of deals	Total value of deals	Total no. of deals	Total value of deals
Dependent variables:				
Institutional governance (source: Kaufmann et al. 2009, period 1995-2010)	Model 1	Model 2	Model 3	Model 4
Political institutions (source: Keefer, 2009, period 1983-2010)	Model 5	Model 6	Model 7	Model 8

Table 2. Models estimated in this paper, by type of dependent and independent variables.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-1.0500	-0.3260	0.0203	0.3730	1.0700

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)	
regQuality	2.1059	0.7239	2.9092	0.0073	**
ruleOfLaw	-2.6602	0.8017	-3.3184	0.0027	**
capitOnGDP	0.8390	0.3626	2.3140	0.0288	*
GDP	0.0006	0.0002	3.3781	0.0023	**

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 22.442

Residual Sum of Squares: 8.3672

R-Squared : 0.62716

Adj. R-Squared : 0.40765

F-statistic: 10.9337 on 4 and 26 DF, p-value: 2.4625e-05

Table 3. Final estimate of the model explaining the total number of domestic M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-1.3600	-0.2650	-0.0077	0.3510	0.9980

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)	
ruleOfLaw	-2.1178	0.7436	-2.8479	0.0083	**
capitOnGDP	1.0558	0.3743	2.8208	0.0089	**
GDP	0.0007	0.0002	3.6822	0.0010	**

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 23.986

Residual Sum of Squares: 9.8715

R-Squared : 0.58844

Adj. R-Squared : 0.3972

F-statistic: 12.8681 on 3 and 27 DF, p-value: 2.0854e-05

Table 4. Final estimate of the model explaining the total value of domestic M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-1.1900	-0.1960	0.0691	0.2860	0.8820

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)	
GDP	0.0004	0.0002	2.2402	0.0391	*

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 8.4145

Residual Sum of Squares: 7.1732

R-Squared: 0.14752

Adj. R-Squared: 0.10695

F-statistic: 5.01852 on 1 and 29 DF, p-value: 0.032907

Table 5. Final estimate of the model explaining the total number of cross-border M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-1.9500	-0.3870	0.0997	0.4610	1.2400

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)	
capitOnGDP	1.4092	0.4779	2.9486	0.0063	**

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 24.221

Residual Sum of Squares: 18.634

R-Squared: 0.23065

Adj. R-Squared : 0.16722

F-statistic: 8.69409 on 1 and 29 DF, p-value: 0.0062495

Table 6. Final estimate of the model explaining the total value of cross-border M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-3.1200	-0.8550	0.2870	0.7610	2.0700

Coefficients :

	Estimate	Std. Error	t-value	Pr(>|t|)	
military-yes	-1.4000	0.5970	-2.3450	0.0230	*
majority	-4.3052	1.7897	-2.4056	0.0198	*
herfopp	1.9435	1.1347	1.7128	0.0928	.
capongdp	2.5005	0.4979	5.0217	0.0000	***
gdp	0.0015	0.0003	5.4431	0.0000	***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 258.82

Residual Sum of Squares: 83.933

R-Squared: 0.67572

Adj. R-Squared : 0.52214

F-statistic: 21.2539 on 5 and 51 DF, p-value: 2.0058e-11

Table 7. Final estimate of the model explaining the total number of domestic M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-5.2100	-0.5840	0.1410	0.9120	2.5900

Coefficients :

	Estimate	Std. Error	t-value	Pr(>|t|)	
military-yes	-1.6195	0.7194	-2.2513	0.0287	*
majority	-5.9479	2.1566	-2.7581	0.0081	**
herfopp	2.5049	1.3673	1.8319	0.0728	.
capongdp	2.9830	0.6000	4.9715	0.0000	***
gdp	0.0017	0.0003	5.0917	0.0000	***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 370.95

Residual Sum of Squares: 121.87

R-Squared: 0.67146

Adj. R-Squared : 0.51886

F-statistic: 20.8464 on 5 and 51 DF, p-value: 2.7721e-11

Table 8. Final estimate of the model explaining the total value of domestic M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-3.0800	-0.4790	0.1130	0.6720	1.6600

Coefficients :

	Estimate	Std. Error	t-value	Pr(>|t|)	
military-yes	-1.0519	0.5180	-2.0308	0.0477	*
majority	-3.3670	1.7105	-1.9684	0.0547	.
herfgov	-1.8751	0.9613	-1.9506	0.0568	.
herfopp	2.1601	0.9876	2.1871	0.0335	*
capongdp	1.6881	0.4402	3.8348	0.0004	***
gdp	0.0011	0.0002	4.7204	0.0000	***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 177.29

Residual Sum of Squares: 60.186

R-Squared   : 0.66052

Adj. R-Squared : 0.49793

F-statistic: 15.8895 on 6 and 49 DF, p-value: 4.9098e-10

Table 9. Final estimate of the model explaining the total number of cross-border M&A deals.

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-5.2800	-0.6800	0.0790	0.8770	3.0700

Coefficients :

	Estimate	Std. Error	t-value	Pr(>|t|)	
military-yes	-1.2098	0.6947	-1.7415	0.0877	.
majority	-6.9661	2.0970	-3.3220	0.0017	**
herfopp	3.1896	1.3269	2.4037	0.0200	*
capongdp	2.1044	0.5923	3.5528	0.0008	***
gdp	0.0017	0.0003	5.2963	0.0000	***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 317.24

Residual Sum of Squares: 111.41

R-Squared   : 0.64882

Adj. R-Squared : 0.49909

F-statistic: 18.4751 on 5 and 50 DF, p-value: 2.3715e-10

Table 10. Final estimate of the model explaining the total value of cross-border M&A deals.

	Independent variable (source: Thomson ONE Banker)			
	Domestic M&A operations		Cross-border M&A operations	
	Total no. of deals	Total value of deals	Total no. of deals	Total value of deals
Dependent variables:				
Institutional governance (source: Kaufmann et al. 2009, period 1995-2010)	Regulatory quality (+) Rule of law (-) capitalisation/GDP (+) GDP (+)	Rule of law (-) capitalisation/GDP (+) GDP (+)	GDP (+)	capitalisation/GDP (+) GDP (+)
Political institutions (source: Keefer, 2009, period 1983-2010)	Military-yes (-) Majority (-) Herf. opposition (+) capitalisation/GDP (+) GDP (+)	Military-yes (-) Majority (-) Herf. opposition (+) capitalisation/GDP (+) GDP (+)	Military-yes (-) Majority (-) Herf. government (-) Herf. opposition (+) capitalisation/GDP (+) GDP (+)	Military-yes (-) Majority (-) Herf. Opposition (+) capitalisation/GDP (+) GDP (+)

Table 11. Results summary of the final model estimates (significant regressors).